WEST VIRGINIA INFORMATIONAL LETTER
INSURANCE COMMISSIONER

No. 4
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COORDINATION OF BENEFITS - VARIABLE DEDUCTIBLE GUIDELINES

The West Virginia Insurance Department recently reappraised and approved the continued use of variable deductible provisions in major medical (catastrophe loss) insurance contracts. As a result, a number of accident and sickness insurers have concluded, erroneously, that the approval of variable deductible provisions opens the door to the unlimited use of coordination or nonduplication of benefit provisions in any and all types of accident and sickness policies. Agents have advised clients that the purchase of additional insurance from competitors is a useless expenditure of premium dollars because coordination of benefit provisions in the presently owned policy would operate to reduce the amounts recoverable thereunder.

This letter restates the position of this department in relation to coordination or nonduplication of benefits and, in addition, sets forth the guidelines to be followed by insurers issuing major medical insurance with a variable deductible feature.

COORDINATION OF BENEFITS

With regard to coordination or nonduplication of benefits the position of the West Virginia Insurance Department is as follows:

(1) Coordination of benefits is permitted between two or more group insurance contracts.

(2) Coordination of benefits is not permitted between group and individual or non-group insurance contracts. Franchise insurance as that term is defined under the provisions of the West Virginia Code, Chapter 33, Article 15, Section 10, 1931, as amended, is not considered group insurance.

(3) Coordination of benefits is not permitted between individual insurance contracts.

VARIABLE DEDUCTIBLE GUIDELINES

Major medical insurance is designed to provide protection against major or catastrophic losses. To prevent the cost of such insurance from becoming prohibitive, most policies provide no coverage until expenses in excess of a fixed deductible amount are incurred. The individual is expected to absorb the deductible amount personally or to provide protection through so-called "first-dollar" or "basic" coverage. Obviously, a fixed deductible is a rather gross mechanism in view of the fact that individual first-dollar coverage may range from zero to amounts in excess of the fixed deductible. To the extent that first-dollar coverage exceeds the fixed deductible, excessive utilization may result, and insurers are faced with the alternative of increasing premiums or increasing the amount of the fixed deductible. The addition of a variable deductible provision is one solution to the problem. The deductible amount then becomes the fixed deductible, or an amount equal to the benefits provided by first-dollar coverage, whichever is greater. This department does not consider the inclusion of a variable deductible, along with a fixed deductible, in a major medical policy, as equivalent to coordination or nonduplication of benefits. However, in order to prevent discrimination in the amount of premium charged with relation to the benefits provided, and to afford full disclosure to the insurance buying public, no major medical policy form containing a variable deductible feature will be approved by this department unless the following guidelines are met:

(1) All amounts deductible in excess of the fixed deductible shall be added to the maximum amounts payable for each accident or illness, in an amount equal to not less than three times the amount of such excess.

(2) All sales material, application forms, and policy forms shall clearly and fully disclose the operation of the variable deductible feature in a two point larger print than any other printed matter therein, using contrasting color for emphasis.

(3) All such sales material and application forms shall be submitted along with policy forms to the Insurance Department for approval prior to use.

(4) All such sales material shall be left with the applicant at the time the application is executed.

(5) All insurers currently using policy forms which have been approved but which do not conform to these guidelines, should contact the Insurance Department, within 90 days from the date of this letter, in writing, setting forth proposals for conforming such policy forms with these guidelines. Otherwise prior approval of such policy forms will be withdrawn.

(6) All insurers are charged with the responsibility for informing agents of these guidelines and of this departments insistence that applicants be made fully aware of the operation and effect of variable deductible provisions in major medical insurance contracts.

Samuel H. Weese
Insurance Commissioner